

OSA - 2572-66

8 June 1966

25X1A

To: [REDACTED]

Subject: FINAL PRICE FOR SP-1926

Reference: (A) Final Cost Statement and Proposal Letter dated
14 March 1966
(B) Letter on Overhead Rates dated 20 October 1965

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We received your letter of 19 April 1966 that proposes a reduction of \$27,926.00 to the final contract price of [REDACTED] which we had suggested in reference (A). Study of your proposal and reference (B) letter indicates a possible misunderstanding concerning the intent of our agreement on overhead rates set forth in reference (B). We expected to use the 1965 rates attached to reference (B) for forward pricing of proposals to be submitted during the remainder of 1965. It was not our intent to establish rates based on estimates that would continue to be used subsequent to the time when rates based on actual costs became available.

In the case of SP-1926, we planned to deliver the last airplane in November 1965 and to submit the final price proposal shortly thereafter. However, the work was delayed and the last airplane was not delivered until January 1966. As a consequence, our proposal in reference (A) was submitted later than we had expected and this made it possible to obtain actual overhead costs for 1965 to use in determining the total contract cost.

We believe that the distinction between forward pricing and determining contract costs is required in this type of situation. To establish a redetermined price, the final costs are allowed generally if they are reasonable and properly allocable to the contract and these actual costs then become the basis for measuring Contractor performance and profit. Using estimates, when actuals are available, would provide an incorrect level from which to negotiate the final contract price. In view of these factors, we believe that our agreement to your proposed reduction would establish a questionable precedent. Accordingly, we request that you reinstate the [REDACTED] to the cost base for SP-1926.

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Sincerely,

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cc: [REDACTED]